THE IMPACT OF FINANCIAL SECTOR POLICIES ON BANKING IN GHANA

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Summary

Ghana has implemented a financial sector reform programme since the late 1980s. The banking system had suffered severe shallowing together with widespread bank distress as a consequence of the pre-reform policies of financial repression, government control of banks and the prolonged economic crisis. The financial sector reforms included the liberalisation of allocative controls on banks, restructuring of insolvent banks and reforms to prudential regulation and supervision.

This paper examines why the banking system in Ghana was in need of reform in the 1980s and evaluates the impact of the financial sector reforms. The conclusion reached is that while the reforms have brought about improvements in the banking system - banks are now more prudently managed and supervised - major constraints to efficient financial intermediation remain, not least macroeconomic instability and the still very shallow nature of financial markets.

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1. Introduction

A major financial sector reform programme has been implemented in Ghana since the late 1980s, involving financial liberalisation and institutional reforms. Financial sector reform was necessary because the pre-reform financial sector policies of government control over financial markets, together with an acute and prolonged economic crisis, had severely damaged the financial system, leading to both financial shallowing and bank distress.

This paper describes the financial sector policies and reforms implemented in Ghana since independence and analyses their impact on the banking system. The banking system, which includes commercial and development banks (which since the 1970s have accepted deposits and undertaken commercial banking activities), comprises the major part of the financial system in Ghana. The primary objective of the paper is to assess how effective the financial sector reforms have been in addressing the consequences of the pre-reform financial policies, and in particular whether financial liberalisation, bank restructuring and prudential reforms have succeeded in fostering the development of a more efficient, competitive and prudentially sound banking system. While Ghana's financial sector reforms are similar in nature to those currently being implemented in many other African countries, Ghana's reforms have been under way for longer, and have been implemented with perhaps greater determination and consistency, than in some other countries. The experience of Ghana therefore provides an important opportunity to assess the efficacy, for the fragile and shallow banking systems on the continent, of standard financial sector reform programmes.

The paper is organised as follows. Section 2 describes the pre-reform financial sector policies which involved control over interest rates, attempts to control the sectoral allocation of lending and the establishment of public sector banks, while section 3 assesses the impact of these policies on financial depth, on credit supply and on bank distress. Section 4 outlines the objectives and main components of the financial sector reform programme implemented since 1988, and the following three sections analyse the impact of three important components of the reforms on the banking system. Section 5 assesses the progress of the restructuring of the public sector banks, which were insolvent at the end of the 1980s. Section 6 discusses the reforms to the system of prudential regulation and supervision. Section 7 examines how effective financial liberalisation has been in boosting deposit mobilisation, promoting competition and enhancing efficiency in banking markets. Section 8 concludes.

2. Post Independence Financial Sector Policies

Extensive government intervention characterised financial sector policies in the post independence period. Public ownership dominated the banking system: all of the banks set up between the early 1950s and the late 1980s were wholly or majority owned by the public sector, while the government also acquired minority shares in the two already established foreign banks in the mid 1970s. Interest rates were administratively controlled by the Bank of Ghana (BOG) and a variety of controls were also imposed on the asset allocations of the banks, such as sectoral credit directives. The motivation for these policies was the belief that, because of market imperfections and the nature of the financial system inherited from the colonial period, the desired pattern of investment could not be supported without extensive government intervention in financial markets. Policies were motivated by three objectives: to raise the level of investment, to change the sectoral pattern of investment, and to keep interest rates both low and stable (Gockel, 1995, p117). Financial sector policies were characterised by severe financial repression, real interest rates were steeply negative and most of the credit was channelled to the public sector.

2.1 Establishment of public sector banks

The government established its own commercial and development banks for two reasons: the belief that the operational focus of the foreign commercial banks, in particular their lending policies, was too narrow, thus depriving large sections of the economy of access to credit, and, second, the contention that sectors important for development, such as industry and agriculture, required specialised financial institutions (FIs) to supply their financing needs.

Dissatisfaction with the foreign banks focused on their conservative lending policies, modelled on those employed in the UK, and in particular their demands for the types of security (life insurance policies, stock certificates, bills, etc) which were uncommon in Ghana (Newlyn and Rowan, 1954, p82). The Ghana Commercial Bank (GCB) was set up in 1953 to improve the access to credit of indigenous businesses and farmers.[2] It was also instructed to extend a branch network into rural areas, so that people in the rural areas would have access to banking facilities, and was heavily involved in lending to agriculture. GCB became the largest bank in Ghana: it had 36% of total bank deposits in the late 1980s.

[2] The GCB was set up following the recommendation made by the Trevor Report, an enquiry commissioned by the government into banking in the then Gold Coast. The enquiry had been prompted by local criticisms of the operational practices of the expatriate banks and the workings of the sterling exchange system.

The Social Security Bank (SSB), was set up in 1977. It grew rapidly to become the second largest bank in Ghana, with 18% of deposits in the late 1980s, providing credit, including longer term loans, for businesses and consumers. It also invested in the equity of several large businesses. Two smaller commercial banks began operations in 1975. The National Savings and Credit Bank (NSCB) - formerly the Post Office Savings Bank - and the Cooperative Bank: these were expected to provide consumer loans, credit for small industries and cooperatives.[3] A merchant bank, Merchant Bank Ghana (MBG), was set up in 1972 as a joint venture between ANZ Grindlays, the government and public sector FIs, with the former having a 30% stake.

To fill the perceived gaps not served by the commercial banks, especially for long term finance, three development finance institutions (DFIs) were set up: the National Investment Bank (NIB), in 1963, to provide long term finance for industry; the Agricultural Development Bank (ADB) in 1965;[4] and the Bank for Housing and Construction (BHC), in 1974, to provide loans for housing, industrial construction and companies producing building materials. The DFIs mobilised funds from deposits as well as from government and foreign loans and undertook commercial banking activities as well as development banking.[5]

The government did not nationalise the two foreign owned banks - Barclays Bank and Standard Chartered Bank (SCB) - which had been established in Ghana during the colonial period, but it did acquire 40% equity stakes in the banks following an indigenisation decree enacted in 1975 (which was applied to all large scale industries).[6]

2.2 Interest Rate Policy

The BOG determined the structure of bank interest rates, including minimum interest rates for deposits and maximum lending rates. Priority sectors, such as agriculture, received preferential lending rates: in some cases these were lower than the minimum savings deposit rates. The structure of interest rates set by the BOG made no allowance for loan maturity or

[3] A Cooperative Bank had been set up in 1946 to serve cooperatives in the cocoa growing areas, but it was closed down in 1961 for political reasons, and its assets and liabilities transferred to GCB in the following year (Adjetey, 1978, p36).

[4] The ADB was originally called the Agricultural Credit and Cooperative Bank.

[5] The first three commercial banks set up - Barclays, Standard Chartered Bank and GCB - were referred to in Ghana as the primary banks. The commercial banks, merchant banks and DFIs set up after independence were referred to as secondary banks. This distinction is no longer used.

[6] A third foreign bank - Bank of Credit and Commerce (originally known as the Premier Bank) - was set up in 1978. The government also has an equity stake in this bank. Its parent bank - Bank of Credit and Commerce International - was closed down in 1991 (see section 6).

risk; indeed incentives for banks to extend credit were often perverse because riskier sectors such as agriculture were accorded a preferential rate. Nominal interest rates were held below prevailing inflation rates in most years and, when inflation accelerated in the second half of the 1970s and early 1980s, real interest rates were highly negative (see table 1).

2.3 Credit Controls

Sectoral credit guidelines, based on an annual credit plan drawn up by the BOG, were imposed on the banks to channel credit towards the priority sectors of agriculture, manufacturing and exports: these usually took the form of maximum permitted percentage increases in the stock of loans to each sector, with priority sectors accorded larger increases than non priority sectors. The sectoral credit directives appear not to have been strictly enforced. Since 1981 an additional regulation stipulated that lending to agriculture should comprise a minimum of 20% of total loans, with shortfalls to be transferred to the ADB. Foreign companies were required to obtain BOG permission to access loans from domestic banks.

2.4 Demonetization exercises and anti fraud measures

A series of measures taken by the government during the late 1970s and early 1980s further eroded public confidence in the holding of currency and bank deposits. The most drastic were two currency appropriations in 1979 and 1982, initiated in an attempt to reduce the money supply and therefore inflation, but the public were also discouraged from holding bank deposits by a number of measures aimed at countering fraud. Banks were ordered in 1979 to furnish information to the authorities about customers at the authorities' request. In 1982 accounts in excess of C50,000 were frozen pending investigation for fraud or tax liabilities, bank loans for the financing of trade inventories were recalled and compulsory payment by cheque was introduced for business transactions in excess of C1000.

2.5 Prudential Regulation and Supervision

The 1970 Banking Act provided the regulatory framework for the banking industry. This imposed minimum paid up capital requirements for foreign and locally owned banks of C2 million and C0.5 million respectively (the latter was subsequently raised to C0.75 million). The minimum capital requirements were worth very little by the early 1980s because of inflation. At the end of 1983, the minimum paid up capital for a local bank was equivalent to only $16,000.

Banks were also required to maintain capital and reserves of at least 5% of their total deposits (rather than risk assets which would be more relevant as an insurance against insolvency).

The capital adequacy requirements were in any case largely meaningless because of the absence of clear accounting rules regarding the recognition of loan losses, provisioning for non performing assets and the accrual of unpaid interest. The true state of banks' balance sheets, including the erosion of their capital as a result of loan losses, could therefore be concealed. Although the Banking Act did provide some rules to constrain imprudent behaviour by banks, penalties for infractions were minimal. There were also important regulatory omissions, such as limits on single borrower loan exposures.

A Bank Examination Department (BED) was established in the BOG in 1964 but its activities were largely confined to ensuring that banks complied with allocative and monetary policy directives, such as sectoral credit directives, and reserve requirements, rather than prudential regulations. The BED also lacked adequate resources to monitor and inspect the banks. In the early 1980s it had only five professional staff, of which only two had any training in bank supervision. On site examinations were infrequent and off site supervision was impeded because of deficiencies in bank reporting (ie the submission of financial data by the banks to the BOG). Hence the BED lacked the information necessary to evaluate the condition of banks' asset portfolios, their profitability and solvency (World Bank, 1986, p65).

3. Impact of Pre-Reform Policies on Banking Markets

The pre-reform policies of financial repression and public ownership of banks had important consequences for the banking system. Financial depth collapsed, and with it the ability of the banking system to supply credit, including to the priority sectors which financial policies aimed to support. With the exception of those banks which retained foreign equity participation (ie Barclays, SCB and MBG), the banks all became insolvent as a result of bad debts and investments in commercially unsuccessful ventures.

3.1 Financial Depth

Financial repression caused severe financial shallowing in Ghana. The broad money/GDP ratio, which had been relatively stable at around 20% from 1964-74, rose briefly in the mid 1970s (to a peak of 29% in 1976)[7] and then collapsed to 12.5% in 1983 (table 2). Moreover bank deposits became less attractive relative to cash: the currency/M2 ratio rose from 35% in 1970 to 50% in 1983, reflecting a process of disintermediation from the formal financial system. Bank deposits amounted to only 7.4% of GDP in 1984, having fallen from 19.5% of GDP in

[7] The rise in M2/GDP during 1975-6 probably reflects the increase in money supply before nominal GDP was able to adjust.

1977. Aryeetey and Gockel (1990), in a study of the informal financial sector, found that street banking was increasing in contrast to formal sector intermediation.

The main causes of the decline in financial depth included the sharply negative real deposit rates, which deterred savers from holding financial assets. The currency appropriations of 1979 and 1982, the freezing of bank accounts and the decree authorising the government to demand details of customers' bank accounts from banks, all served to erode public confidence in holding domestic currency and using the banking system, instead encouraging the use of informal financial intermediaries and the holding of savings in the form of physical assets, such as buildings and construction materials, or foreign assets. Long waiting times in banks, a consequence of inefficiency and the lack of large denomination bank notes, also deterred the public from depositing cash in banks. Moreover the banks were discouraged from active deposit mobilisation because interest rate controls and the very high statutory reserve and liquid asset requirements prevented banks from channelling depositors' funds into remunerative outlets. At times the banks refused to open new time and savings deposit accounts and refused to pay interest on accounts above a certain amount (Leite, 1982).

3.2 *Lending to Priority Sectors*

Although financial sector policies aimed to support priority sectors through the use of sectoral credit guidelines and preferential interest rates, the supply of credit to these sectors declined precipitously in real terms. Credit to the whole of the non government sector (which included both priority and non priority sectors) amounted to only 3.6% of GDP in 1983, having fallen from 9.8% in 1977 (World Bank, 1986, pV).[8] The main reasons for the decline in credit supply were the fall in financial depth discussed above combined with crowding out by the government's borrowing requirements, which reduced the aggregate volume of funds which banks had to lend to all non government borrowers, including public enterprises. The government took 87% of net domestic credit in 1983.

While the total volume of bank lending fell, the sectoral credit directives were not always effective in ensuring that the desired sectoral distribution of credit was realised. Although credit to agriculture usually exceeded the stipulated minimum of 20% of total loans, there is anecdotal evidence that agricultural loans were diverted to other uses, such as trading. Credit to other priority sectors often fell short of the maximum permitted under the credit ceilings while that to non priority sectors often exceeded their ceilings (World Bank, 1986, pp38-39).

[8] This figure excludes cocoa financing.

Banks were discouraged from allocating their available funds to priority sectors because of the lending rate controls which made no allowance for the risk of lending, or for transactions costs. Banks had strong incentives not to extend credit to potentially risky borrowers but to invest in government securities instead, since the latter offered the same, or almost the same, interest rates, but unlike the former were both liquid and virtually risk free.

3.3 Financial Distress Among Public Sector Banks

Financial distress afflicted all the public sector banks in the 1980s. The DFIs appear to have run into serious difficulties first, while the emergence of distress in the two main commercial banks - GCB and SSB - was delayed until the mid 1980s. All the banks were rendered insolvent by non performing assets (NPAs) and had to be restructured in 1989-91, when a total of C62 billion of NPAs was identified in the banking system and replaced by BOG bonds or offset against liabilities of the banks to the BOG or the government. Most of the NPAs were transferred to the Non Performing Assets Recovery Trust (NPART) in 1991.[9]

The NPAs included non performing loans, letters of credit and equity investments which yielded no income. Non performing loans amounted to C32 billion, representing 41% of all outstanding loans to the non government sector (Kapur et al, 1991, pp60-61).[10] Of the C50.4 billion of NPAs which were eventually transferred to NPART in 1991, GCB, BHC and SSB accounted for 28%, 25% and 25% respectively (Table 4). Loan losses would probably have been much greater had not lending been curtailed by the high liquid reserve requirements and credit ceilings imposed in the 1970s and 1980s.The DFIs also incurred heavy losses from foreign exchange exposures: they had converted foreign currency liabilities into domestic currency assets without providing for the risk involved.

The main reason for the losses incurred by the public sector banks was that they had been pressured into extending finance to unbankable projects to meet developmental and political objectives. The banks were very vulnerable to political pressure because the government had the authority to appoint and dismiss the banks' executives and managers. The economic crisis and the radical changes in economic policy implemented during the 1980s also contributed to the deterioration in the banks' asset portfolios. Some of the projects financed by banks were closed down because foreign exchange to purchase inputs was unavailable. Many importers,

[9] Almost all of the NPAs had been incurred by banks wholly owned by the public sector: Barclays, SCB and MBG accounted for only 4% of the NPAs transferred to NPART (see table 4).

[10] The total assets of all the banks at the end of 1989 amounted to C316 billion: hence NPAs accounted for almost 20% of the banks' total assets. Aggregate capital and reserves of the banks was negative C2.4 billion at the end of 1989 (Bank of Ghana, QEB, 1992, statements 2A and 2B).

to whom letters of credit had been extended by the commercial banks, were unable to meet their obligations following the large exchange rate devaluations which began in 1983.

Around 47% of the NPAs transferred to NPART had been extended to SOEs, many of which were not economically viable. The government had provided guarantees for some of the loans extended to SOEs but these had not been honoured. The other 53% of NPAs transferred to NPART were accounted for by private sector creditors or joint ventures between the private sector (including foreign companies), traditional councils and the banks. These were mainly medium and small scale companies in import substituting industries. Many of these projects were not properly appraised by the banks providing the finance, some were clearly only marginally viable, if viable at all, and the collateral provided had little resale value. Loan documentation was inadequate, as was loan monitoring and little effort was made to recover many of the bad debts.

NPART (1994, pp7-12) provides an interesting account of the problems which led to the collapse of four projects financed by the BHC, NIB and SSB. The problems afflicting these projects included inappropriate technical design, equipment breakdowns, disputes between shareholders, the withdrawal of foreign partners and the unavailability of inputs. Most of the assets owned by these companies consisted of equipment which had been left lying around in fields without maintenance for years after the collapse of the projects and hence were virtually worthless when eventually auctioned by NPART.

Corruption and fraud contributed to the scale of the banks' losses with politically connected borrowers being able to access unsecured loans which would not have been given to them on commercial grounds and to avoid pressure to repay. During the Acheampong regime in the 1970s, loan applicants obtained notes from military officers and took these to bank managers: If the manager did not comply he risked being sacked over the radio. Many of the BHC's bad debts had been extended to military personnel. In addition some of the banks' staff lacked the necessary qualifications and expertise because recruitment was influenced by nepotism and political influence.

The public sector banks continued in operation throughout the 1980s despite the poor quality of their asset portfolios. GCB and SSB were able avoid liquidity shortages partly because the very high reserve requirements imposed in the 1970s and the credit ceilings in the 1980s forced them to hold large volumes of liquid assets. But the DFIs, whose asset portfolios were both longer term and more badly impaired than those of the commercial banks, and which had the additional burden of foreign currency denominated liabilities, were worse affected by financial distress and suffered liquidity shortages in the early 1980s.[11] Both the BHC and NIB required injections of equity and loans from the BOG to maintain liquidity and boost capital, but this only allowed further large losses to be incurred in the second half of the decade.[12]

The true state of the banks' balance sheets was concealed by the failure to make adequate provisions for NPAs and to suspend accruing unpaid interest as income. Hence banks appeared solvent, according to the data in their published accounts, (even though the capital adequacy levels of some banks were very low) when appropriate accounting procedures would have revealed that losses had completely eroded capital. The extent of the financial distress in these banks was only revealed when diagnostic studies were carried out in 1987 as part of the preparations for the Financial Sector Adjustment Programme (FINSAP).

3.4 Foreign Banks

The banks with foreign equity participation (Barclays, SCB and MBG) avoided incurring significant levels of loan losses and were generally profitable.[13] Despite the government equity stakes in these banks and the credit directives issued by the BOG, they were able to resist most of the pressure to extend credit to unbankable borrowers. They maintained conservative lending policies with loan applications evaluated according to strict commercial criteria. Foreign ownership appears to have provided some protection against government interference in lending decisions which was so pervasive in the public sector banks. Although the foreign banks had to comply with credit guidelines, they were able to identify the more creditworthy borrowers within the priority sectors to lend to; usually the larger established private sector companies which had a wide range of business activities in different industries. Where loans were made to riskier sectors such as agriculture, Barclays and SCB protected their balance sheets by using BOG credit guarantees. In addition the SOEs - a major source of bad debts - were given instructions to bank with GCB, thereby allowing the foreign banks to avoid this sector.

[11] By the end of 1983, the BHC and NIB had arrears rates of around 85% and 52% of their respective asset portfolios. After making provisions for arrears in 1984, the NIB recorded a loss which more than wiped out its capital and reserves (World Bank, 1986, p72-75; National Investment Bank, 1991, appendix 6).

[12] The NIB and BHC each received C880 million from the BOG in the form of equity and loans in 1983/84 (World Bank, 1986, pp74-75).

[13] Bank of Credit and Commerce, which also had foreign ownership, did suffer from financial distress in 1991: see section 6 below.

4. Financial Sector Reforms

Financial sector reforms have been implemented since the late 1980s as part of the ongoing Economic Recovery Programme (ERP). They began with the partial liberalisation of interest rates in 1987 and removal of sectoral credit ceilings in the following year. This was accompanied by liberalisation of access to foreign exchange and the licensing of foreign exchange bureaux. In 1989 the FINSAP was begun, supported by a financial sector adjustment credit (FSAC) from the World Bank.

The objectives of the FINSAP, inter alia, were to address the institutional deficiencies of the financial system, in particular by restructuring distressed banks, reforming prudential legislation and the supervisory system, permitting new entry into financial markets by public and private sector FIs, and developing money and capital markets.

Further liberalisation of financial markets took place in 1992 with the adoption of indirect instruments of monetary control which entailed the introduction of market determined TB rates. Since 1994 a second phase of the FINSAP has been underway, major objectives of which are the privatisation of public sector banks and development of non bank financial institutions (NBFIs) to fill the gaps in the financial markets not served by the banks.

The following sections discuss the progress, achievements and limitations of the three components of the FINSAP which most directly affect the banks; bank restructuring, reforms to the prudential system and the liberalisation of financial markets.

5. Restructuring the Public Sector Banks

The restructuring of the public sector banks began in 1989, and involved balance sheet restructuring and reforms to their management and operating procedures.

Balance sheet restructuring was necessary because the banks were insolvent and the magnitude of their NPAs was too large for them to be able to restore adequate levels of capitalisation from future profits. Hence recapitalisation from public funds was necessary. NPAs amounting to C62 billion ($170 million or 4.4% of 1989 GDP) were removed from the banks' balance sheets and replaced with BOG bonds or offset against debts owed to the government or the BOG in 1990/91. A specialised government agency - the Non Performing Assets Recovery Trust (NPART) - was set up to take over the NPAs and attempt to recover as many of them as possible.[14] NPART received C50.4 billion of NPAs in 1991 and had recovered C14.1 billion by the end of 1994 (NPART, 1994, p6). A further C5.1 billion of NPAs were transferred to NPART from the Ghana Cooperative Bank in 1994. In addition the BOG assumed responsibility for some of the foreign currency liabilities of the DFIs and the SSB.

The replacement of NPAs in the banks' balance sheets enabled all but one of the public sector banks to meet, by the end of 1990, the minimum capital adequacy requirement of 6% of adjusted assets prescribed in the 1989 Banking Law.[15]

In addition to recapitalisation it was necessary to reform the management and operating procedures of the banks to prevent bad debts from recurring, and to reduce operating costs. New boards of directors and executives were appointed to the public sector banks in 1990, and turnaround plans formulated for each of the banks. Technical assistance was provided through twinning arrangements with foreign banks such as the State Bank of India. The restructuring involved the overhaul of credit policies and strengthening of credit appraisal, loan monitoring and loan recovery systems, areas which had been particularly weak prior to the reforms. Internal controls, inspection and audit were improved and budgetary and performance appraisal systems were introduced. Staff training programmes were enhanced. To cut costs, staffing levels were reduced by 38% between 1988 and 1992, and some bank branches were closed (World Bank, 1994, p57; National Investment Bank, 1991; interviews in Accra, 1995 & 1996).

If the public sector banks are to avoid the recurrence of NPAs it is essential that they are not expected by the government to finance unbankable projects but are allowed to allocate their funds according to commercial criteria. The public sector banks claim that lending policies have changed with most loan decisions, including lending to most of the SOEs, made on explicitly commercial criteria, and that loan decisions are now free of political interference. The SSB now concentrates on commercial banking and no longer undertakes equity investments in new ventures: such investments were the source of many of its NPAs prior to the restructuring. However the GCB has been pressured by the government to continue financing some of the larger SOEs (interviews in Accra, 1995).

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[14] Not all of the banks' NPAs were transferred to NPART. Some of those regarded as unrecoverable, especially small loans to farmers, were not transferred. The banks were given bonds with maturities of two-five years yielding interest rates of between 7% and 12%. They were subsequently rolled over at rates of 15% (World Bank, 1994, p56).

[15] The exception was the Ghana Cooperative Bank.

A further safeguard against political interference in banks would be their privatisation, the first stage of which began in 1995 when the government sold part of its equity stake in the SSB to the public and then sold 30% of its shares in GCB in 1996. There are plans for the divestiture of government equity in the DFIs.

In the six years since the restructuring exercise began the financial performance of the public sector banks has been reasonably good, with the exception of the Ghana Cooperative Bank which was still insolvent in 1995. They have generated profits, their rates of return to capital have exceeded inflation on average during 1991-95, they have built up their capital and reserves, have been able to meet the minimum capital adequacy ratios imposed by the 1989 Banking Law, and have generally been highly liquid (see table 5). The banks are however still afflicted by significant levels of NPAs, albeit not at the levels which prevailed prior to the restructuring, even though the share of loans in their asset portfolios is low. The GCB made annual provisions for bad and doubtful debts, out of earnings, equivalent to almost 14% of its total loans during 1991-95, while the SSB, ADB and NIB made provisions averaging around 5% of their loans.

The financial position of the GCB must still be a cause for some concern. It suffered a sharp drop in shareholder funds, in loans and advances and in total assets in 1994, for reasons which are not transparent because it published no annual report for that year or for 1995, and its capital adequacy ratio declined steeply in 1995. As noted above, it has had to make extensive provisions (provisions and interest in suspense amounted to 43% of its outstanding loans and advances in 1995) which indicates that a large share of its loan portfolio is non-performing.[16] It experienced liquidity shortages in late 1993/early 1994, although it claimed this was not its fault.

Since the restructuring exercise began the banks have done very little lending: most of their assets have been held as liquid assets, primarily government and BOG securities, which since the introduction of the TB auction have provided a remunerative and safe source of income. The average ratio of loans to total assets of the five public sector banks in table 5 was only 22% during 1991-95. The low level of lending is only partly attributable to the high liquid asset ratios imposed by the BOG. Bankers interviewed in 1995/96 conceded that creditworthy borrowers were very scarce and that they would be reluctant to increase lending even if reserve ratios were lower, especially in view of their past experience of bad debts.

[16] This figure differs from that pertaining to provisions/charges during the year shown in table 5 because the latter is a flow while the former is a stock level. The stock of provisions shown on the asset side of a bank's balance sheet is usually the accumulation of several years of provisions made out of income.

From the point of view of asset management, restoring financial viability to the public sector banks has been relatively straightforward. Banks have been able to avoid the much more difficult task of building up an income generating loan portfolio which would have necessitated them identifying and servicing commercially viable and creditworthy business projects, or at least borrowers with adequate security. While the restructuring has enabled the banks to stop making bad loans, it is not yet clear that it has enabled them to make good loans. But at some point in the future the government's domestic borrowing requirement is likely to fall, thus reducing the supply of, and income from, government securities. The banks will then have to expand their lending to the private sector or to SOEs. Whether they have been able to develop the capacity to undertake commercially viable lending will indicate how successful the restructuring of the banks has actually been.

6. Reforms to the Prudential System

The reforms to the prudential system entailed revisions to the banking legislation with the enactment of a new Banking Act in 1989 and an NBFI Act in 1993 (NBFIs had not previously been covered by financial legislation), the introduction of standardised reporting and accounting procedures, and the strengthening of supervisory capacities in the BOG.

The 1989 Banking Law imposed minimum paid up capital requirements for Ghanaian and foreign owned commercial banks of C200 million and C0.5 billion respectively, and C1 billion for development banks providing medium and long term finance for trade and industry. The BOG has the authority to amend the capital requirements, but had not done so by mid 1996. An upward revision of the capital requirements has become increasingly urgent in view of the high rates of inflation in the 1990s.[17] The Banking Law sets a minimum capital adequacy ratio of 6% of adjusted risk assets and requires banks to maintain reserve funds with transfers out of annual profits.[18] The Law also gives the BOG the authority to prescribe minimum liquid asset ratios.[19]

[17] The C200 million required to open a locally owned commercial bank was equivalent to $1 million in 1989 but this had fallen to only $117,000 by mid 1996.

[18] The capital adequacy provisions differ in two respects from those set out in the Basle accords. The required minimum is lower: 6% against 8% in the Basle accords. However the adjusted asset base which forms the denominator for the capital adequacy requirement is larger under the Ghanaian Banking Law than it would be under the Basle accords, mainly because the Ghanaian schedule recognises only two classes of assets (assets given a risk weighting of 100% and those regarded as riskless) rather than the five classes of assets in the Basle accords. Assets which under the Basle accords attract a weighting of less than 100% (eg mortgages) are given a 100% weighting under the Ghanaian Banking Law, and hence are required to be supported by a larger amount of capital in the latter.

[19] The main use of the liquidity ratios is for monetary policy rather than prudential purposes.

The Banking Law stipulates exposure limits for secured credits or guarantees to a single customer (except for other banks) of 25% of the bank's net worth, and unsecured credits or guarantees of 10% of net worth. To restrict insider lending, exposure to customers with links to the bank's own directors is limited to a maximum of 2% of net worth for secured facilities and 2/3% of net worth for unsecured facilities. Banks cannot advance credit against the security of their own shares or directly engage in non banking business, and the Banking Law restricts equity investments and loans which banks can extend to subsidiary companies. However the Law does not set out limits on a bank's foreign currency exposures.

The Banking Law gives the BOG authority to take action against a bank which it believes may be unable to meet its obligations to depositors, or is not acting in the best interests of depositors and creditors. Action available to the BOG includes prohibiting acceptance of fresh deposits, assuming control of the bank or revoking the bank's license.

A standardised accounting system for the banks, which includes explicit criteria for the classification of loans, provisioning for non-performing assets and the non-accrual of unpaid income, has been introduced. To facilitate offsite supervision, banks are required to submit, to the BOG, a variety of statistical data at regular intervals, including data on large exposures, non-performing loans and connected lending. The banks are generally complying with the reporting requirements, although reports are not always submitted on time. The Bank Supervision Department (BSD) of the BOG has been strengthened with staffing levels more than doubled to over 80 and supervisory skills upgraded through training. Regular on site examinations are now taking place in line with the requirements of the Banking Law which stipulates that the BOG must examine each bank at least once a year. Bank examinations are able to investigate the accuracy of the banks' reports to the BOG, including the veracity of their loan classification. Supervisors claim that they are under no government pressure to regulate the government owned banks less stringently.

While the reforms are likely to have considerably improved bank regulation and supervision in Ghana, how effective the prudential system has become is probably too early to evaluate. The banking system has been relatively easy to supervise during the 1990s for two reasons. First, because of the very high reserve requirements and the availability of high yielding government and BOG securities, all of the banks have adopted conservative asset management with lending and other risk assets forming a small share of their total portfolios (loans amounted to only 20% of the banks' total assets in 1994). As such the scope for imprudent banking behaviour has been limited. Second, the numbers of banks which the

BOG has had to supervise has not been large: during 1991-1994 there were only 14 banks operating in Ghana. Hence supervisory resources were not dissipated among numerous banks. The regulators have not been faced with a rapid expansion of small local private sector banks, as occurred in Kenya, Nigeria and Zambia, which, given the experience in these countries, would have been more vulnerable to financial distress and would have required intensive supervision.

It is possible that financial fragility in the banking system will increase in the second half of the 1990s, for two reasons. First, new entrants into banking markets, the growth of NBFIs, and the privatisation of public sector banks are likely to increase competition and squeeze interest rate, and hence profit, margins. Second, if interest rates on government securities decline, as would happen if the fiscal position improves, the banks will have to hold a larger share of risk assets in their portfolios if they are to maintain earnings. Most of the prime borrowers in the economy are likely to bank with the well established banks, especially those with strong foreign connections, leaving the new entrants among the banks and NBFIs, and possibly the weaker public sector banks, to service the least creditworthy segments of the credit market, as has happened in other countries in Africa such as Kenya. The challenges facing the regulators will intensify as a consequence.

Excluding the banks participating in the restructuring exercise, there have been three cases of distress among FIs during the 1990s. The Bank for Credit and Commerce (the Ghanaian subsidiary of BCCI which was closed down by regulators in the UK and USA in 1991) has been technically insolvent since 1991 as a consequence of incurring a large foreign exchange liability, and has been managed under BOG supervision since then.

The local subsidiary of Meridien BIAO was closed in 1995 after incurring a large foreign exchange exposure to its parent bank (similar foreign exchange exposures to the parent bank were incurred by Meridien BIAO subsidiaries in other African countries such as Kenya, Zambia and Tanzania). The BOG had detected the foreign exchange exposure and instructed Meridien BIAO Ghana to reduce it. The exposure had been partly reduced but still exceeded the bank's capital when the parent bank was put into liquidation in April 1995. Meridien was recapitalised by local shareholders, SSNIT and the Ghana Reinsurance Organisation, and reopened under the name of The Trust Bank.

The authority of the BOG to control Meridien's imprudent foreign exchange exposures may have been impeded because the 1989 Banking Law does not impose specific limits on foreign exchange exposures, but the main problem facing the regulators was probably their ability to detect and prevent the exposure before it was too late. The BOG has set up a unit to monitor foreign exposures in the banking system and is considering issuing regulations to the banks limiting such exposures.

The third case of FI distress occurred in 1996 when Securities Discount Company Investments (SDCI) was put into liquidation because of the non servicing of many of its loans. SDCI was a subsidiary of the Securities Discount Company (SDC), a discount house set up in 1991, with equity participation from SSNIT, the International Finance Corporation, GCB and two of the merchant banks established in Ghana in the late 1980s; CAL and Ecobank. It was alleged that SDCI had not received a license to operate as a finance house under the 1993 NBFI Law (and therefore was not licensed to extend loans), had violated the exposure limits of the NBFI Law, had extended credit to one of its directors, and that about half of its loan portfolio had been extended without any, or adequate, security (Public Agenda, 18-24/3/96 and 24-30/6/96).[20] The BOG had been unable to prevent SDCI's infringements of the NBFI Law, partly because its NBFI supervisory capacities were not fully operational when the infringements took place and partly because SDCI's activities had begun in 1992, before the NBFI Law came into force.

The BCC, Meridien BIAO and SDCI cases point to what may be a significant change in the nature of potential threats to the financial soundness of FIs in Ghana. Whereas the main cause of bank distress in the controlled financial system existing before the financial sector reforms was political interference in government controlled banks, in a liberalised, predominantly private sector owned financial system, foreign exchange exposures and insider lending may prove to be more important.

7. Financial Liberalisation

Since 1987 financial markets have been progressively liberalised in Ghana. Liberalisation has entailed the removal of controls on interest rates and the sectoral composition of bank lending, and the introduction of market based instruments of monetary control. New FIs, including several merchant banks with private sector participation, have been licensed and the latest phase of liberalisation involves the partial privatisation of government owned banks. This section outlines the main components of financial liberalisation in Ghana and evaluates their impact on banking markets. We discuss whether liberalisation has led to positive real

[20] SDCI had mobilised funds from SDC, NPART and some of the rural banks.

interest rates, boosted deposit mobilisation, enhanced the efficiency of loan allocation, stimulated competition and improved services.

7.1 *Liberalisation of Interest Rates and Credit Directives*

Interest rates were partially liberalised in 1987 with the removal of maximum lending rates and minimum time deposit rates. Minimum savings deposit rates were removed in the following year as were all the sectoral credit guidelines with the exception of the stipulation that at least 20% of each banks' loan portfolio be allocated to agriculture. This was removed in 1990. Controls on bank charges and fees were also abolished in 1990. The bank specific credit ceilings, which had been the main instrument of monetary control employed during the ERP, were removed in 1992, and replaced with an indirect market based system of monetary control involving the weekly auctioning of TBs and other government and BOG securities, backed up with statutory cash reserve and liquid asset requirements (Alexander et al, 1995, pp47-49).[21] Hence by the early 1990s banks were free to price deposits and loans and to allocate loans according to market criteria, although the very high reserve ratios imposed by the BOG were a major constraint on the volume of credit they were able to extend.

7.2 *New Entry into Financial Markets*

There have been several new entrants into banking markets since the reforms began. Two merchant banks - Continental Acceptances (CAL) and Ecobank - began operations in 1990: both are joint ventures involving local public sector shareholders and foreign shareholders. A foreign commercial bank - Meridien Bank BIAO - was set up in 1992 with a minority local shareholding by the Social Security and National Insurance Trust (SSNIT). Two more merchant banks commenced operations in 1995: First Atlantic and Metropolitan and Allied. Unlike the earlier entrants these two banks both have major equity participation from the local private sector, together with foreign participation.

It is perhaps surprising that local private sector investment in banking has, so far, been limited to the two banks set up in 1995. This is not attributable to conservative bank licensing policy on the part of the BOG and Ministry of Finance. Although licensing policy appears to be cautious, with applicants required to fulfil a number of conditions such as the submission of a feasibility study with five year financial projections, and to provide particulars of the promoters and prospective managers, the number of applicants for bank licenses since the reforms began, and the number of rejections, has not been large. This may be attributable to the weakness of the local business class and its lack of close links to the government: local

[21] The cash reserve requirement was reduced from 27% of deposit liabilities in 1990 to 5% in 1993, but the liquid asset or secondary reserve requirement was raised to 52%.

investors may have been wary of entering a high profile sector such as banking without the protection of political connections. It is also possible that local investors interested in financial markets have instead opted for less ambitious ventures, such as foreign exchange bureaux and NBFIs, in which the capital investment required is much lower than that needed to set up a bank.

In addition to the new entry into banking markets around 20 NBFIs, including leasing companies, finance houses, building societies and savings and loan companies, have been established during the 1990s. Many of these NBFIs accept deposits and extend credit, and therefore provide some competition for the services offered by the banks.[22]

7.3 *Real Interest Rates and Deposit Mobilisation*

Interest rate liberalisation has not had a marked impact on the level of real deposit rates, in part because administered nominal rates had already been raised in 1984 by the BOG in an effort to stimulate financial savings. There have been substantial variations in the level of real interest rates since the late 1980s, reflecting fluctuations in inflation rates and the considerable contemporaneous differences between the nominal rates offered on different classes of bank deposits since interest rates were liberalised (for example, there was a difference of 17 percentage points between the lowest savings deposit rate and the highest fixed deposit rate in December 1994 - see table 6).

High rates of inflation have impeded the attainment of positive real deposit rates. When inflation rates have fallen to around 10%, as in 1992, real deposit rates have been positive. But when inflation has been higher, as in 1987-91 and 1993-95, the nominal interest rates paid on savings deposits and the lowest rates paid on fixed deposits have generally been well below the prevailing inflation rates. Consequently bank deposits have not offered very attractive returns to most savers. Not surprisingly there has been only a very limited degree of financial deepening in the banking system since the reforms began. Bank deposits increased from 10.4% of GDP in 1986 to 12.8% of GDP in 1994 (table 2).

7.3 *Credit Allocation*

The liberalisation of controls over interest rates and credit allocation, together with the adoption of a more commercially oriented approach to lending by the public sector banks, should enhance the efficiency of credit allocation: ie enable banks to direct credit towards those borrowers capable of generating the highest rates of return. It is likely that credit

[22] Under the 1993 NBFI Law, NBFIs are allowed to accept fixed term deposits but not current account deposits.

allocation has improved - the reduction in the level of banks' NPAs noted in section 5 suggests that banks are generally avoiding lending to commercially unviable projects - although this is probably due more to the institutional reforms undertaken by the public sector banks than by liberalisation of administrative controls.

The main constraint to an increase in the efficiency of credit allocation by the banks has been macroeconomic instability, as in several other African countries undertaking financial sector reforms. Large fiscal deficits, financed partly through domestic borrowing, and unsterilised balance of payments surpluses have led to relatively high and variable rates of inflation and high nominal interest rates in the 1990s (table 1).

Although ex post real lending rates have not always been very high (and sometimes been negative), the combination of nominal lending rates of up to 39% and high but unpredictable inflation entails considerable risk for borrowers. Consequently loan demand has been depressed while the banks have been reluctant to expand their lending, instead investing in government and BOG securities. Government securities have offered the banks returns which have often been comparable to prevailing lending rates, without the risk involved in lending to the private sector. Bank lending has also been constrained by the high reserve ratios imposed by the BOG in an attempt to restrain monetary growth. Bank lending to the private sector has remained at very low levels since the financial sector reforms began, amounting to only 5.3% of GDP in 1994 (table 2). The private sector has to a large extent been crowded out of credit markets by the public sector's borrowing requirement.

7.4 *Competition and the Efficiency of Banking Services*

Liberalisation could stimulate greater competition in banking markets through several channels. These include the new entry into banking markets outlined above, the diversification of the operations of the DFIs away from purely specialised functions, the removal of interest rate controls and credit ceilings, which should allow banks greater freedom to compete for customers, and the privatisation of government banks; private sector banks might be expected to compete more aggressively against each other than banks owned by the public sector.

New entry has brought about a small reduction in market concentration in the banking industry. The share of the largest four banks in total bank deposits fell from 76% in 1988 to 70% in 1994 (see table 7). However the industry remains highly oligopolistic. If competition has increased it appears to have been mainly limited to the segments of the deposit and credit markets involving corporate and institutional customers: most of the new entrants have been in merchant banking rather than retail banking and the established commercial banks have reduced their retail branch networks.

Liberalisation has not yet had a major impact on innovation in banking markets or the quality of services offered to the public. There has been very little innovation in terms of the range of instruments and services provided. Only very basic savings and lending instruments are available from the banks. Interest bearing chequeing accounts are generally only available to customers with very large deposits (World Bank, 1994, p61). However the NBFIs have introduced some new credit instruments, such as leases.

A large volume of money is remitted to Ghana by Ghanaians working abroad, but the banks have not provided adequate facilities to attract this business.[23] Transferring money from abroad through the banks is very slow, the banks are reluctant to furnish the recipients in Ghana with foreign currency, and the exchange rates they offer are uncompetitive compared to those of the foreign exchange bureaux. Hence much of the money remitted to Ghana from abroad is carried into the country by hand and exchanged outside the banking system.

The failure of financial liberalisation to stimulate greater improvements in the range and quality of retail banking services requires some explanation. It may be attributable to the lack of competitive pressures on the banks which have been able to generate profits during the 1990s, mainly from investing in securities, without having to compete vigorously for either deposits or borrowers. It is also possible that the very low usage of the banking system by the public (as indicated by the lack of financial depth) makes the introduction of innovative retail services uneconomical. In turn the public are deterred from using the banks, partly because services are poor, but also because holding bank deposits is unattractive given the high rates of inflation. It is likely that a combination of sustained low inflation (which might encourage the public to operate current accounts for payments purposes) and greater competition will be needed if retail services are to improve.

8. Conclusions

The government intervened extensively in financial markets in Ghana for two decades in an attempt to control the cost and direction of finance. Public sector commercial banks and DFIs were set up and administrative controls imposed on interest rates and the sectoral allocation of bank credit. Much less attention was accorded to prudential regulation.

[23] Private transfer payments into Ghana from abroad were estimated at $271 million in 1994 (Bank of Ghana, Annual Report 1994, p29).

The financial repression of the 1970s and early 1980s had destructive consequences for the depth and institutional strength of the banking system. Financial depth collapsed after the mid 1970s under the impact of sharply negative real interest rates, the lack of remunerative outlets for banks' funds, and currency appropriations by the government. Furthermore the public sector banks incurred large losses as a result of political pressure to finance unbankable borrowers, including public enterprises, very weak credit procedures and corruption. By the mid 1980s the public sector banks were insolvent with large volumes of non performing assets (NPAs) on their books.

Since the late 1980s a financial sector reform programme has been implemented, the objectives of which include developing a liberalised, market oriented, more competitive, efficient and prudently managed banking system. The insolvent public sector banks were restructured, with NPAs removed from their balance sheets and reforms to their management and operating procedures implemented. A revised banking law was enacted in 1989, and in 1993 legislation was enacted to provide for the prudential regulation of NBFIs. Administrative controls over interest rates and credit were removed and a market oriented monetary policy, involving regular securities auctions, introduced.

Given the extent of institutional deterioration in the banking system, the reforms have achieved significant progress. The public sector banks have adopted more explicitly commercial operating and credit policies, appear to be under much less political pressure to extend funding to unbankable borrowers, have strengthened credit procedures and internal controls and reduced staffing levels. The two largest public sector banks have been partially privatised with minority stakes floated on the local stock market in 1995 and 1996.

Since the restructuring was carried out, all but one of the public sector banks has been profitable and able to comply with capital adequacy requirements. The improvement in their financial position is however partly due to the availability of government and BOG securities which offer a remunerative but almost risk free investment outlet for the banks' funds. Loans and advances have accounted for only around 20% of the banks' total assets during the 1990s, hence their ability to undertake commercially viable lending activities has yet to be fully tested.

The reforms have strengthened both the prudential regulatory framework and the supervisory capacities of the BOG. Banks are submitting relevant financial data on a regular basis to the supervisors and on site inspections are being carried out. But prudential supervision may become more demanding in the next few years if the banks expand their lending and if new entrants and privatisation lead to greater competition for deposits and borrowers. Since 1995 a bank and a finance company have been closed down as a result of excessive foreign exchange exposures and imprudent lending respectively, pointing to potential areas of risk for the stability of FIs in a liberalised banking system.

Several new banks with private sector participation have been established since the late 1980s alongside a range of NBFIs. This has introduced some limited competition into banking markets, although it has been mainly confined to the segments of the credit and deposit markets serving corporate and institutional customers. The new entrants have avoided retail banking outside the large cities, and the quality of service provision in retail banking still leaves much to be desired.

Despite the improvements to the institutional structure of the banking system brought about by the reforms, the banking system is still very shallow and performs very little intermediation between savers and borrowers in the private sector. Bank deposits amounted to only 12.8% of GDP and bank credit to the private sector amounted to only 5.3% of GDP in 1994. A major cause of this is the lack of macroeconomic stability. High rates of inflation have prevented positive real interest rates from being attained on many classes of interest bearing deposits, including most savings deposits. The private sector has been crowded out of credit markets with the banks investing heavily in liquid assets rather than loans, in part to comply with the very high statutory reserve requirements imposed to restrain monetary growth, but also because the high nominal lending rates increase the risks involved in lending to the private sector. As a consequence financial reforms have probably had only a limited impact on enhancing the efficiency of intermediation in banking markets. Reducing inflation is essential if financial deepening and an expansion of lending to the private sector is to be attained.

Abbreviations

ADB	Agricultural Development Bank
BCC	Bank for Credit and Commerce
BED	Bank Examinations Department
BHC	Bank for Housing and Construction
BOG	Bank of Ghana
BSD	Bank Supervision Department
C	Cedi
DFI	Development Finance Institution
ERP	Economic Recovery Programme
FI	Financial Institution
FINSAP	Financial Sector Adjustment Programme
FSAC	Financial Sector Adjustment Credit
GCB	Ghana Commercial Bank
MBG	Merchant Bank Ghana
NBFI	Non Bank Financial Institution
NIB	National Investment Bank
NPA	Non Performing Asset
NPART	Non Performing Assets Recovery Trust
NSCB	National Savings and Credit Bank
SCB	Standard Chartered Bank
SDCI	Securities and Discount Investments
SOE	State Owned Enterprise
SSNIT	Social Security and National Insurance Trust
SSB	Social Security Bank
TB	Treasury Bill

Table 1

Selected Interest Rates and Inflation: 1975-95 (%)

Year	12 month deposits	Savings deposits	Lending (agric)	Lending (other)	TBs	Inflation
1975	8	7.5	-	12.5	7.8	18.8
1976	8	7.5	6	11.5-12.5	7.8	55.4
1977	8	7.5	8.5	11.5-12.5	7.8	116.5
1978	13	12	13	18.5	12	73.1
1979	13	12	13	17.5-18.5	12	54.5
1980	13	12	13	17.5-18.5	12	50.2
1981	19	18	20	25.5	18.5	116.5
1982	9	8	8	14	9.5	22.3
1983	12.5	11	12.5	19	13.0	122.8
1984	16	14.5	16	22.5	16.8	39.7
1985	17	15.5	18	22.5	16.8	10.4
1986	20	18.5	22.5	23	19.8	24.6
1987	20-22	21.5	22.8-30	26	19.6	39.8
1988	17-22	17-21.5	23-30	23-30.3	19.8	31.4
1989	12-20	15-19	22.5-30	22.5-30.3	19.9	25.2
1990	14-22	14-18	22.5-29.5	22.5-30.3	27.5	37.2
1991	16-24	10.6-19.5	19.5-31.5	23-31.5	18.0	18.0
1992	15.5-22.5	11-16	19.8-26.5	24-29	25.4	10.0
1993	17-32	15-22.5	24-39	26-39	32	24.9
1994	14-31	13.8-22.5	22.5-35.5	29-37.5	29.5	24.9
1995	18-34	21.5-31	27-38.5	32-40.5	33.0	38.5

The Bank of Ghana statistics give a variety of lending rates pertaining to different sectors. "Other" lending applied to loans to sectors other than agriculture, manufacturing and exports and was generally the highest loan rate.

Sources: Gockel (1995, p320); Bank of Ghana (various issues).

Table 2

Money Supply, Bank Deposits and Credit to the Private Sector: Percentages of GDP: 1970-94

Year	M2/GDP (%)	Bank Deposits/ GDP (%)	Bank Claims on Private Sector /GDP (%)
1970	19.0	12.4	8.2
1971	19.0	12.6	12.6
1972	23.7	15.2	10.1
1973	22.6	15.6	5.3
1974	21.6	14.4	5.7
1975	26.2	17.0	5.8
1976	29.1	18.3	5.9
1977	29.7	19.5	5.0
1978	26.6	16.6	3.5
1979	22.8	14.2	2.8
1980	20.4	12.4	4.1
1981	22.9	14.7	3.1
1982	19.8	12.0	3.7
1983	13.2	7.8	2.7
1984	12.5	7.4	3.0
1985	16.0	9.7	4.5
1986	16.5	10.4	5.2
1987	17.1	10.9	4.3
1988	17.3	11.2	3.6
1989	16.9	11.1	5.6
1990	13.6	9.7	3.9
1991	13.4	9.3	3.2
1992	17.5	11.8	4.6
1993	16.9	12.7	4.6
1994	18.7	12.8	5.3

Money supply and bank deposit data includes the deposits of the secondary banks. Claims on the private sector excludes the secondary banks prior to 1980.

Sources: Bank of Ghana (various issues) and Quarterly Digest of Statistics (various issues).

Table 3

NPAs Transferred to NPART by Type of Borrower: Cedi Millions

Private Sector	26,487	(52.5%)
SOEs	23,946	(47.5%)
Total	50,433	(100%)

Excludes NPAs transferred from Ghana Cooperative Bank.

Source: NPART (1991, p23).

Table 4

NPAs Transferred to NPART by Banks
Cedi Millions

Bank	Amount of NPAs Transferred to NPART (cedi millions)	% of total NPAs Transferred to NPART
GCB	14,321	28.4
SSB	12,585	25.0
NSCB	725	1.4
ADB	1,293	2.6
NIB	6,623	13.1
BHC	12,853	25.5
Barclays	689	1.4
SCB	462	0.9
MBG	881	1.7
Total	50,433	100

An additional C5.1 billion of NPAs was transferred to NPART from Ghana Cooperative Bank in 1994.

Source: NPART (1991, p24; and 1994, p15).

Table 5

**Public Sector Banks After Restructuring:
Selected Financial Ratios; Averages 1991-95 (%)**

	GCB	SSB	ADB	NIB[2]	BHC[3]
Loans/Total Assets	8.3	14.6	33.0	27.8	23.8
provisions (charges during year)/loans	13.9	5.3[1]	4.5	6.6	na
Profits before tax/total assets	5.1	7.9	7.9	8.3	6.3
Profits before tax/shareholder funds	39.6	71.0	51.6	28.0	43.8
Capital Adequacy[4]	6.8	22.6	17.9	29.6	12.8

Notes:
1; 1993-95 (data on provisions not published in 1991 & 1992 Accounts.
2; 1991-94
3; 1992-95
4; 1995 - the minimum capital adequacy ratio is 6%

Profits are derived after making provisions for bad and doubtful loans.

Sources: GCB, SSB, ADB, NIB and BHC Annual Reports and Accounts.

Table 6

Nominal and Real Deposit Rates Since Liberalisation (%)

Year	Inflation	Nominal Deposit Rates		Real Deposit Rates	
		lowest	highest	lowest	highest
1989	25.2	15.0	21.0	-8.1	-3.4
1990	37.2	14.0	24.0	-16.9	-9.6
1991	18.0	10.6	25.2	-6.3	6.1
1992	10.0	11.0	24.0	0.9	12.7
1993	24.9	15.0	32.0	-7.9	5.7
1994	24.9	13.8	31.0	-8.9	4.9
1995	38.5	21.5	37.0	-12.3	-1.1

The lowest interest rate shown is the lowest rate offered on savings deposits. The highest rate shown is the highest rate offered on fixed deposits.

Source: Bank of Ghana (various issues).

Table 7

Deposit Share of Four Largest Commercial Banks: 1988 and 1994 (%)

	1988	1994
GCB	36	29
SSB	18	14
Barclays	12	14
Standard	12	13
Total	76	70

Source: Bhatt (1993, p11) and Ghana Commercial Bank Share Offer, mini prospectus, 1996, p3.

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